

**REPORT OF THE AUDIT OF THE
OWSLEY COUNTY
FORMER SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Cale Turner, Owsley County Judge/Executive
Honorable Paul Short, Former Owsley County Sheriff
Honorable Kelly Shouse, Owsley County Sheriff
Members of the Owsley County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Owsley County Former Sheriff's Settlement - 2002 Taxes as of January 5, 2003.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the former Owsley County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
FORMER OWSLEY COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003

**ROSS & COMPANY, PLLC
Certified Public Accountants**

**800 Envoy Circle
Louisville, KY 40299
Telephone: (502) 499-9088
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER OWSLEY COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003

Ross & Company, PLLC has completed the audit of the Sheriff's Settlement - 2002 Taxes for former Owsley County Sheriff Paul Short as of January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$464,106 for the districts for 2002 taxes, retaining commissions of \$19,789 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$438,846 to the districts for 2002 Taxes. Taxes of \$18,524 are due to the districts from the former Sheriff and refunds of \$13,053 are due to the former Sheriff from the taxing districts.

Report Comments:

- The Former Sheriff Should Settle Amount Owed and Collect Amounts Due Sheriff
- The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Former Sheriff Should Maintain Sufficient Collateral To Protect Public Deposits
- The Former Sheriff Should Prepare All Tax Reports On A Timely Basis
- The Former Sheriff Should Not Have A Deficit In His Official Bank Account
- Lacks Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were not insured and collateralized by bank securities or bonds.

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To the People of Kentucky
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Honorable Cale Turner, Owsley County Judge/Executive
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Honorable Kelly Shouse, Owsley County Sheriff
Members of the Owsley County Fiscal Court

Independent Auditor's Report

We have audited the former Owsley County Sheriff's Settlement - 2002 Taxes as of January 5, 2003. This tax settlement is the responsibility of the former Owsley County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Owsley County Sheriff's taxes charged, credited, and paid as of January 5, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2004, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Cale Turner, Owsley County Judge/Executive
Honorable Paul Short, Former Owsley County Sheriff
Honorable Kelly Shouse, Owsley County Sheriff
Members of the Owsley County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Former Sheriff Should Settle Amount Owed and Collect Amounts Due Sheriff
- The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Former Sheriff Should Maintain Sufficient Collateral To Protect Public Deposits
- The Former Sheriff Should Prepare All Tax Reports On A Timely Basis
- The Former Sheriff Should Not Have A Deficit In His Official Bank Account
- Lacks Adequate Segregation Of Duties

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
January 13, 2004

OWSLEY COUNTY
PAUL SHORT, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

January 5, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 94,583	\$ 158,501	\$ 248,281	\$ 76,004
Tangible Personal Property	2,749	3,913	7,647	3,582
Intangible Personal Property				1,035
Fire Protection	1,971			
Franchise Corporation	20,873	31,986	57,861	
Additional Billings				80
Gas Property Taxes	696	1,026	1,827	559
Adjusted to Sheriff's Receipt	663	941	1,840	1,907
Gross Chargeable to Sheriff	<u>\$ 121,535</u>	<u>\$ 196,367</u>	<u>\$ 317,456</u>	<u>\$ 83,167</u>
<u>Credits</u>				
Exonerations	\$ 1,685	\$ 2,640	\$ 4,442	\$ 1,574
Discounts	1,030	1,689	2,650	852
Delinquent Gas Property Taxes	12	18	32	10
Uncollected Franchise	8,218	14,066	22,786	
Transfers to Incoming Sheriff	32,313	50,315	83,496	26,591
Total Credits	<u>\$ 43,258</u>	<u>\$ 68,728</u>	<u>\$ 113,406</u>	<u>\$ 29,027</u>
Taxes Collected	\$ 78,277	\$ 127,639	\$ 204,050	\$ 54,140
Less: Commissions *	3,614	5,425	8,162	2,588
Taxes Due	\$ 74,663	\$ 122,214	\$ 195,888	\$ 51,552
Taxes Paid	74,663	119,028	201,750	51,475
Commissions Refunded From School			8,070	
Due Districts or (Refund(s) Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (0)</u>	<u>\$ 3,186</u>	<u>\$ 2,208</u>	<u>\$ 77</u>

* and ** See Page 4

The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY
 PAUL SHORT, FORMER COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2002 TAXES
 January 5, 2003
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	250,056
4% on	\$	204,050

** Special Taxing Districts:

Library District	\$	(13,053)
Extension District		11,798
Soil Conservation District		<u>4,441</u>

Due Districts or (Refund(s) Due Sheriff)	\$	<u><u>3,186</u></u>
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The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 23, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$187,109 of public funds uninsured and unsecured.

OWSLEY COUNTY
 NOTES TO FINANCIAL STATEMENT
 January 5, 2003
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of December 23, 2002.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county officials name	100,952
Uncollateralized and uninsured	<u>187,109</u>
Total	<u><u>\$ 388,061</u></u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 15, 2002 through January 5, 2003.

Note 4. Interest Income

The former Owsley County Sheriff earned \$554 as interest income on 2002 taxes. As of January 13, 2004, the former Sheriff owes \$234 in interest to the school district and \$320 in interest to his fee account.

Note 5. Deficit Balance

Based on available records, there is an \$8,717 deficit in the former Sheriff's official tax account. This deficit results from undeposited tax receipts for tax year 2002. A Schedule of Excess of Liabilities Over Assets is included in this report as a supplemental schedule.

OWSLEY COUNTY
PAUL SHORT, FORMER COUNTY SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

January 5, 2003

Assets

Cash in Bank (All Tax Accounts)	\$ 405,697
Deposits in Transit	17,101
Receivables-	
Library	<u>13,053</u>
Total Assets	<u>\$ 435,851</u>

Liabilities

Paid Obligations-	
Outstanding Checks	\$ 300,515
Payments to Taxing Districts-	
State	11,889
County	27,541
School	55,218
Library	15,582
Health	6,251
City	4,898
Non-Sufficient Funds Bank Charge	43
Overdraft Bank Charge	<u>11</u>
Total Paid Obligations	\$ 421,948

Unpaid Obligations-	
Due to Taxing Districts-	
School	\$ 2,208
Extension	11,798
Soil Conservation	4,441
Tax Comissions Due Sheriff's Fee Account	3,619
Interest Due Sheriff's Fee Account	320
Interest Due School	<u>234</u>

Total Unpaid Obligations	<u>22,620</u>
Total Liabilities	<u>\$ 444,568</u>
Total Fund Deficit as of January 5, 2003	<u><u>\$ (8,717)</u></u>

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COMMENTS AND RECOMMENDATIONS

OWSLEY COUNTY
PAUL SHORT, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of January 5, 2003

STATE LAWS AND REGULATIONS:

1.) The Former Sheriff Should Settle Amount Owed and Collect Amounts Due Sheriff.

The proper distribution of tax money collected by the former Sheriff requires the collection of receivables (including overpayments to some taxing districts) and the payment of these funds to the appropriate taxing districts. The following net collection and net payables should be made:

Money Due From Others:

Library	<u>\$ 13,053</u>
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Total Due From Others	<u><u>\$ 13,053</u></u>
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Money Due To Others:

School	\$ 2,442
Extension	11,798
Soil	4,441
Fee Account	<u>3,939</u>

Total Due Others	<u><u>\$ 22,620</u></u>
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When the personal funds of \$8,717 are deposited in the official tax account, the above collections and distributions, along with the available tax bank account cash of \$850, will be sufficient to close the former Sheriff's tax account for tax year 2002. We recommend the former Sheriff collect the above \$13,053 of receivables and, combined with the personal funds of \$8,717 and the available cash of \$850, pay the listed \$22,620, of money owed.

Sheriff's Response: None

2.) The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the former Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." The former Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the former Sheriff's fee account. During 2002 tax collections, the former Sheriff earned interest of \$554 on his tax account. However, the former Sheriff did not pay the interest to the Board of Education or the fee account on a monthly basis. The former Sheriff did not make any payments to the Board of Education or the fee account. As of January 13, 2004, the former Sheriff owed the Board of Education \$234, and the former Sheriff owed the fee account \$320. We recommend the former Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

Sheriff's Response: None

OWSLEY COUNTY
PAUL SHORT, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of January 5, 2003
(Continued)

3.) The Former Sheriff Should Maintain Sufficient Collateral to Protect Public Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 23, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$187,109 of public funds uninsured and unsecured.

Sheriff's Response: None

4.) The Former Sheriff Should Prepare All Tax Reports On A Timely Basis

The former Sheriff did not prepare timely monthly reports for taxes collected. We remind the former Sheriff that KRS 134.300 requires reports and payments be made by the tenth of each month following the collection of taxes. This delay in payments allows the Sheriff to receive the benefit of the interest earned on these funds rather than the taxing districts. We recommend the former Sheriff prepare all tax reports and submit all money due each district on a timely basis.

Sheriff's Response: None

5.) The Former Sheriff Should Not Have A Deficit In His Official Bank Account

Based on available records, the former Sheriff had a deficit of \$8,717 in his official bank account as of January 5, 2003. This deficit resulted from undeposited receipts for tax year 2002. The former Sheriff should eliminate this deficit by depositing \$8,717 from personal funds to his official account. We recommend in the future that all tax collections be deposited intact daily to the official tax bank account.

Sheriff's Response: None

OWSLEY COUNTY
PAUL SHORT, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of January 5, 2003
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

6.) Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. We recommend that the Sheriff implement compensating controls to offset this internal control weakness. Examples of compensating controls are: 1) comparing source documents to the receipts and disbursements ledgers and to the monthly tax reports; 2) having deposits compared to the receipts ledger and bank statements; and 3) comparing checks to monthly tax reports. The lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness.

Sheriff's Response: None

PRIOR YEAR:

The Former Sheriff Should Settle Amount Owed And Collect Amounts Due Sheriff

This comment is repeated in the current year.

The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly

This comment is repeated in the current year.

The Former Sheriff Should Pay Advertising Fees And Advertising Costs To The Fee Account And To The Fiscal Court, Respectively

This comment is not repeated in the current year.

The Former Sheriff Should Maintain Sufficient Collateral To Protect Public Deposits

This comment is repeated in the current year.

The Former Sheriff Should Prepare All Tax Reports On A Timely Basis

This comment is repeated in the current year.

Receipts Were Not Deposited Intact Daily

This comment is not repeated in the current year.

OWSLEY COUNTY
PAUL SHORT, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of January 5, 2003
(Continued)

PRIOR YEAR: (Continued)

The Former Sheriff Should Not Have A Deficit In His Official Bank Account

This comment is repeated in the current year.

The Former Sheriff Should Implement Proper Accounting Procedures And Maintain Proper Accounting Records

This comment is not repeated in the current year.

Lacks Adequate Segregation Of Duties

This comment is repeated in the current year.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Cale Turner, Owsley County Judge/Executive
The Honorable Paul Short, Former Owsley County Sheriff
The Honorable Kelly Shouse, Owsley County Sheriff
Members of the Owsley County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Owsley County Sheriff's Settlement - 2002 Taxes as of January 5, 2003, and have issued our report thereon dated January 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Owsley County Sheriff's Settlement - 2002 Taxes as of January 5, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Settle Amount Owed and Collect Amounts Due Sheriff
- The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Former Sheriff Should Maintain Sufficient Collateral To Protect Public Deposits
- The Former Sheriff Should Prepare All Tax Reports On A Timely Basis
- The Former Sheriff Should Not Have A Deficit In His Official Bank Account

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Owsley County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", is written over a horizontal line.

Ross & Company, PLLC

Audit fieldwork completed -
January 13, 2004

